MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC3654 – PROFESSIONAL ETHICS

(All sections / Groups)

16 March 2018
9.00 a.m - 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages (excluding cover page) with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Talk about corporate fraud and it is likely that most Malaysians do not understand what is going on. One XYZ company in Malaysia carried out an unplanned survey which showed that people know little about corporate fraud. Of the 30 people, 28 did not know or did not want to comment on it. Professional experts in this field say that corporate fraud is on the rise but that is difficult to ascertain since most research depends on survey respondents. Perhaps, the technology to detect such activities is better and the regulators have become more adept. It is to be noted that globalization of economic activities and technologies have also played a part in making fraudulent activities harder to detect or prosecute. Things are becoming complex these days.

In another survey conducted by a New York-based corporate investigations and risk consulting firm, states that fraud is on an increasing trend, up 14% in its Global Fraud Report for 2015/2016, from three years ago. The report noted that three-quarters of survey respondents were victims in the past year. The report also says that the number of companies weighed down in terms of financial loss arising from fraud has also increased to 68% last year, compared with 62% in 2014. In the opinion of many experts, it is argued that Malaysians equate fraud with corruption. While it's not exactly the same, there is often an element of corruption involved, as in people being paid off to turn the other way while fraudulent activity is being committed. Creative accounting is usually what comes to mind among people who have any opinion at all about corporate fraud.

PLC Solutions managing consultant and certified fraud examiner Raghunandan points out that developing countries such as Malaysia can see fraudulent activities rising, especially in economically challenging times while Asia Consulting firm corporate advisory partner Sang says corporate fraud is becoming more complex and has become increasingly difficult for auditors to detect. She adds that this is complicated by organizations forming shell companies abroad to create a semblance of legitimate business transactions.

"You can create companies overseas and pretend to buy things from you on paper which could look normal, until you see the place and there is nothing there".

She further states,

"The level of detection and investigative work definitely will need to be increased, which will make it even harder for auditors to detect. It will not be something that you can instantly pick from the accounts".

a. Identify the main issue in the above case situation. (2 marks)

b. Based on the above case, explain the effect of corporate frauds from the perspective of utilitarianism, deontology and fairness.

(9 marks)

Continued....

c. In light of Fraud Triangle Theory, what could be the contributing factors for increasing corporate financial reporting frauds? Provide **2 (two)** examples for each element of this theory.

(9 marks)

d. Briefly discuss any **5 (five)** suggestions on how professional accountants' expertise and skills may be improved to deal with corporate frauds.

(5 marks)

[TOTAL 25 MARKS]

QUESTION 2

Recently, a news appeared in one of the leading newspapers about the postponement of the construction of telecommunication towers in several designated locations under the Selangor Municipal Council (SMC). The president of SMC said that this is to facilitate further discussions with the residents in the affected areas which will be conducted in the near future. In the discussions, the council's town planners will also be included. The President further states

"After much deliberation, we feel that this matter needs to be postponed and we will conduct discussions with the residents' community members to discuss in depth the best method to overcome this matter".

The president said that the council only has jurisdiction on the locations of the proposed construction site, and the telecommunication company is also required to acquire approval to erect the towers from the Land and Survey Department apart from the Communications and Multimedia Commission (MCMC).

Last week, residents of XYZ location held a protest, claiming that the council had failed to consult them before approving the project for a 30-metre tall telco tower to be built near their main playing field. The residents argued that living too near to the tower would put the health of some 5,000 residents living in the area at risk and this issue has not been discussed so far.

a. Based on the above case, explain why the development projects resulted in conflict between stakeholders? You may apply the GONE theory for your explanation.

(6 marks)

b. Advise the SMC how to proceed with the proposed projects by applying the Velasquez Approach?

(8 marks)

c. In your opinion, explain whether it would be appropriate for the telecommunication company to erect the towers? You may use the 5-Questions Approach to provide your explanation.

(11 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Sierra was plunged into further turmoil as profits sank more than 90 per cent and United State's biggest retailer admitted it had been overstating profits for longer than previously thought. The Company's chairman bowed to investor pressure and said he would step down to draw a line under the affair. His resignation has pushing the shares down 15 per cent to an 11-year low at $96. Since the beginning of the year the group has issued three profit warnings, and its market value has significantly reduced.

The audit committee of Sierra commented that the overstatement may have been the result of error or deliberate action. The accounting discrepancy arose from the way it recognized income from suppliers. The $200 million of the shortfall were related to the first half of this year and $100 million were related to last year. Sierra called in their external auditor and lawyers to investigate the issue. The investigations indicated internal financial reporting systems and associated internal controls were wholly ineffective, allowing significant errors to go unchecked.

Before Sierra announced the results of investigations, they were leaked to the media. Shareholders said the pressure was now on for new management to set out their strategy and establish a risk committee to ensure such problems would never arise in the future.

a. Explain 3 **(three)** objectives of internal control systems and how does effective internal control may prevent misreporting financial statement at Sierra.

(9 marks)

b. The responsibility of the board of Sierra for ensuring effective financial reporting and internal control is fundamental for good corporate governance.

Briefly discuss **5 (five)** ways on how the work of a risk committee can help the board fulfil its responsibilities.

(10 marks)

c. Discuss 3 **(three)** general principles which should be used by the board of Sierra to communicate the company information to its shareholders. (6 marks)

[TOTAL 25 MARKS]

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QUESTION 4

a: The Enron scandal is the most significant corporate collapse in the United States since the failure of many savings and loan banks during the 1980s. This scandal demonstrates the need for significant reforms in accounting and corporate governance in the United States, as well as for a close look at the ethical quality of the culture of business generally and of business corporations in the United States.

Discuss 5 (five) ways on how the Enron scandal could have been avoided?

(10 marks)

b. You are employed as accountant assistant. You and accountant both report to the finance director. During training, the accountant said that she had not been disclosing certain things to the external auditor. The accountant also told you that a bribe was paid to the local agent to secure a sales contract. You are uneasy about the situation and you are worried that a close relationship between the accountant and the finance director may prevent you from exploring the accuracy of the statements given to you.

Based on the above scenario, suggest the possible course of action that you may take.

(10 marks)

c. Your colleague was observed leaving by one of the training organizer, despite remaining signed in for the whole day. He was approached by the training organizer who advised him that he really ought to report his absence. Your colleague explained to the training organizer that he already knew much of the content of the training, and so felt that it would be waste of his time if he stayed. Instead, he explained, he planned to spend the time more productively researching subject matter which better suited both his personal development and his company's needs. On reflection, the training organizer decided to report your colleague's absence.

Evaluate your colleague's actions at the training against **2 (two)** fundamental ethical principles which should have guided his behavior as a professional accountant.

(5 marks)

[TOTAL 25 MARKS]

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